

**CENTRAL VALLEY WATER RECLAMATION FACILITY**

FINANCIAL STATEMENTS  
with  
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2005

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Central Valley Water Reclamation Facility  
Salt Lake City, Utah

We have audited the accompanying basic financial statements of Central Valley Water Reclamation Facility as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Central Valley Water Reclamation Facility as of December 31, 2005, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2006 on our consideration of Central Valley Water Reclamation Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion thereon.

We performed our audit to form an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the Table of Contents are presented for additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

February 17, 2006

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Central Valley Water Reclamation Facility's (the Facility) annual financial report presents our analysis of the Facility's financial performance during the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Facility's financial activities.

### Financial Highlights:

- Central Valley saw its operating expenses (excluding depreciation) increase 2% during 2005. The vast majority of the increase was attributable to utility costs. In the last two years the utility costs have increased 17%. For 2006, the board has approved a budget increase of 7%.
- During 2005, net assets decreased \$6,777,443. This is attributed primarily to depreciation. The board has elected not to fund depreciation on an on-going basis. The funds are provided on an as needed basis. The Facility has entered into a contract for the building of two secondary clarifiers costing an estimated \$7,000,000. With this addition, the Facility will have the capability to handle at least 75 million gallons per day.
- In 2001 Central Valley constructed a nine hole executive golf course. The primary function is for experimentation and application of wastewater for reuse. The course is open to the public, and a manager has been retained to run the facility. Since the facility has been opened, revenues have not paid for its operating costs, and as of December 31, 2005, \$100,000 had been advanced to cover these costs. It is anticipated that monies will need to be budgeted to help fund golf course operations in future years.
- The Facility borrowed \$30,500,000 to help the seven member entities adjust their ownership percentage, and fund future projects. The bond calls for a 3% interest rate and repayment over twenty years.

### Overview of Financial Report:

This discussion and analysis is intended to serve as an introduction to the Central Valley Water Reclamation Facility's financial statements. The Facility's financial statements comprise two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Management's Discussion and Analysis (MD&A) serves as an introduction to the financial statements and supplementary information. The MD&A represents management's analysis of the Facility's financial condition and performance.

The financial statements report information about the Facility using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Facility on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational capital and related financing, and investing activities. In other words, it provides information

regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the Facility's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

#### **Financial Analysis:**

To begin our analysis, a summary of the Facility's balance sheet is presented in the schedule below. This section will discuss and analyze significant differences between the years ended December 31, 2004 and 2005.

#### **Central Valley Water Reclamation Facility Condensed Balance Sheet**

	<u>2005</u>	<u>2004</u>
Current and Other Assets	\$ 27,692,203	\$ 4,564,931
Capital Assets	<u>110,173,934</u>	<u>109,906,512</u>
<b>Total Assets</b>	<b><u>\$ 137,866,137</u></b>	<b><u>\$ 114,471,443</u></b>
Current Liabilities	\$ 3,007,959	\$ 1,840,888
Other Liabilities	<u>30,661,529</u>	<u>1,656,463</u>
<b>Total Liabilities</b>	<b><u>33,669,488</u></b>	<b><u>3,497,351</u></b>
Net Assets Invested in Capital Assets, Net of Related Debt	79,673,934	109,906,512
Net Assets Restricted	1,147,642	—
Net Assets Unrestricted	<u>23,375,073</u>	<u>1,067,580</u>
<b>Total Net Assets</b>	<b><u>104,196,649</u></b>	<b><u>110,974,092</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 137,866,137</u></b>	<b><u>\$ 114,471,443</u></b>

The balance sheet includes all of the Facility's assets and liabilities, and net assets which are categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$104,196,649 at the end of the year. The largest portion of the Facility's net assets, \$79,673,934 (76.5%), reflects its investment in capital assets (e.g., land, buildings, sewer treatment facilities and equipment). The Facility uses these capital assets in its daily operations; consequently, they are not available for future spending.

While the balance sheet shows the change in financial position of net assets, the summary of the Facility's statements of revenues, expenses, and changes in net assets, provides information regarding the nature and source of these changes as seen in the following schedule. Net assets decreased by \$6,777,443, mainly as a result of unfunded depreciation.

**Central Valley Water Reclamation Facility**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	2005	2004
Operating Revenues	\$ 9,475,300	\$ 9,324,689
Non-operating Revenues	312,100	312,675
Total Revenues	<u>9,787,400</u>	<u>9,637,364</u>
Depreciation Expense	6,244,573	6,251,303
Other Operating Expense	9,790,615	9,609,997
Non-operating Expense	787,550	—
Total Expenses	<u>16,822,738</u>	<u>15,861,300</u>
(Loss) Before Member Contributions	(7,035,338)	(6,223,936)
Member Contributions	1,962,566	2,830,346
Member Distributions	<u>(1,704,671)</u>	<u>—</u>
Changes in Net Assets	(6,777,443)	3,393,590
Net Assets - Beginning of Year	<u>110,974,092</u>	<u>114,367,682</u>
Net Assets - Ending of Year	<u>\$ 104,196,649</u>	<u>\$ 110,974,092</u>

**Capital Contributions:**

Capital contributions made by member entities are used to fund expansion of the plant or to renovate existing facilities.

Prior to implementing the Governmental Accounting Standards Board (GASB) pronouncements 33, 34 and 36-38, system assets received from the federal government and member entities were recorded as direct contributions to equity. GASB 33 defines these fees as non-operating revenues and requires reporting the amounts through the statement of revenues, expenses, and changes in net assets.

**Capital Assets and Debt Administration:**

***Capital Assets***

The Facility's investment in capital assets as of December 31, 2005, amounts to \$110,173,934 (net of accumulated depreciation). This investment in capital assets includes land, water reclamation facilities, a golf course, and equipment. The Facility's investment in capital assets increased by \$267,422 for the current year.

Major capital asset events during the current fiscal year included the following:

- Two secondary clarifiers represent the construction in progress total. Said clarifiers should be completed and operational in 2006.
- A co-generation engine purchased in 1992 was being depreciated over a twenty year useful life. It was determined that the engine no longer met the best use co-gen configuration and was sold in 2005 for a loss as shown on the financial statements. The new engines are being depreciated over a fifteen year useful life.

**Capital Assets  
Net of Depreciation**

	<u>2005</u>	<u>2004</u>
Land	\$ 10,678,531	\$ 10,678,531
Water reclamation facility	87,668,758	93,388,350
Golf course	3,987,620	4,314,116
Facility equipment	844,544	1,044,371
Office furniture and equipment	94,357	127,121
Construction in progress-secondaries	<u>6,900,124</u>	<u>354,023</u>
 Total Capital Assets (Net of Depreciation)	 <u>\$ 110,173,934</u>	 <u>\$ 109,906,512</u>

Additional information on the Facility's capital assets can be found in Note 5.

***Long-term Debt***

At the end of the current fiscal year, the Facility had total debt of \$30,743,055. The debt represents bonds secured solely by specified revenue sources, as well as a note payable to a member entity. The Facility's debt increased by \$30,286,935 during the current fiscal year. The issuance of \$30,500,000 taxable sewer revenue bonds accounts for the increase.

**Long-Term Debt**

	<u>2005</u>	<u>2004</u>
Revenue bonds	\$ 30,500,000	\$ —
Note payable – member	<u>243,055</u>	<u>456,120</u>
 Total	 <u>\$ 30,743,055</u>	 <u>\$ 456,120</u>

Additional information on the Facility's long-term debt can be found in Note 8.

**Final Comments:**

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Accounting Manager of the Central Valley Water Reclamation Facility, 800 West Central Valley Road, Salt Lake City, Utah 84119 or by phone (801)973-9100.

**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**BALANCE SHEET**

**DECEMBER 31, 2005**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 809,503
Restricted cash and cash equivalents	1,147,642
Receivables:	
Members	1,156,402
Unbilled - members	120,564
Other	2,157
Inventory - parts and supplies	393,666
Prepaid expenses	139,459
Notes receivable members, current portion	31,526
Due from members – bond interest	586,044
Due from members – bond principal, current portion	<u>1,300,000</u>

**TOTAL CURRENT ASSETS** 5,686,963

**NOTES RECEIVABLE MEMBERS, LONG-TERM PORTION** 211,529

**DUE FROM MEMBERS – BOND PRINCIPAL, LONG-TERM PORTION** 21,700,000

**CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)** 110,173,934

**OTHER ASSETS** 93,711

**TOTAL NONCURRENT ASSETS** 132,179,174

**TOTAL ASSETS** \$ 137,866,137



## LIABILITIES AND NET ASSETS

### CURRENT LIABILITIES:

Accounts payable	\$ 389,338
Accrued vacation and sick leave	417,584
Retention payable	283,467
Accrued interest payable	586,044
Note payable - member, current portion	31,526
Bonds payable – current	<u>1,300,000</u>

TOTAL CURRENT LIABILITIES 3,007,959

### NONCURRENT LIABILITIES:

Working capital advances from members	1,250,000
Note payable - member, long-term portion	211,529
Bonds payable	<u>29,200,000</u>

TOTAL NONCURRENT LIABILITIES 30,661,529

TOTAL LIABILITIES 33,669,488

### NET ASSETS:

Invested in capital assets, net of related debt	79,673,934
Restricted for:	
Debt service	864,174
Capital improvements	283,468
Unrestricted	<u>23,375,073</u>

TOTAL NET ASSETS 104,196,649

TOTAL LIABILITIES AND NET ASSETS \$ 137,866,137

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2005

OPERATING REVENUES:

Member service charges	\$ 9,222,826
Golf course	<u>252,474</u>

TOTAL OPERATING REVENUES	<u>9,475,300</u>
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OPERATING EXPENSES:

Administrative	1,132,135
Board	48,388
Engineering	363,461
Interceptor monitor	35,205
Lab	579,889
Plant operations and maintenance	6,930,572
Pretreatment	25,999
Pretreatment - field	419,277
Golf course	255,689
Depreciation	<u>6,244,573</u>

TOTAL OPERATING EXPENSES	<u>16,035,188</u>
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OPERATING (LOSS)	<u>(6,559,888)</u>
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NON-OPERATING REVENUES (EXPENSES):

Interest income	312,100
(Loss) on disposal of assets	<u>(787,550)</u>

TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(475,450)</u>
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(LOSS) BEFORE MEMBER CONTRIBUTIONS	<u>(7,035,338)</u>
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MEMBER CONTRIBUTIONS	1,962,566
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MEMBER DISTRIBUTIONS	<u>(1,704,671)</u>
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CHANGE IN NET ASSETS	<u>(6,777,443)</u>
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NET ASSETS - BEGINNING OF YEAR	<u>110,974,092</u>
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NET ASSETS - END OF YEAR	<u>\$ 104,196,649</u>
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**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from members and customers	\$10,640,877
Payments to suppliers	(4,753,067)
Payments to employees	<u>(5,755,926)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>131,884</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital contributions from members	1,962,566
Capital distributions to members	(1,704,671)
Acquisition and construction of capital assets	(7,353,596)
Proceeds from capital debt	30,500,000
Distribution of bond proceeds to members	(23,000,000)
Principal payments - note payable	(213,065)
Principal payments - notes receivable	213,065
Proceeds from sale of capital assets	<u>171,101</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>575,400</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	<u>312,100</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>312,100</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,019,384
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>937,761</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,957,145</u>
CASH APPEARS ON THE BALANCE SHEET AS FOLLOWS:	
Cash and cash equivalent - unrestricted	\$ 809,503
Cash and cash equivalents - restricted	<u>1,147,642</u>
	<u>\$ 1,957,145</u>

See accompanying notes to financial statements.

CENTRAL VALLEY WATER RECLAMATION FACILITY

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2005

RECONCILIATION OF OPERATING (LOSS) TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES:

Operating (loss)	\$(6,559,888)
Adjustments to reconcile net income to net cash provided (used in) operating activities:	
Depreciation and amortization	6,244,573
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	1,165,577
Inventory	(16,875)
Prepaid expenses	(661)
Increase (decrease) in:	
Accounts payable	(1,056,352)
Accrued vacation and sick leave	72,043
Retention payable	<u>283,467</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 131,884</u>

See accompanying notes to financial statements.

# **CENTRAL VALLEY WATER RECLAMATION FACILITY**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Central Valley Water Reclamation Facility (the Facility) conform to generally accepted accounting principles as applicable to governmental units and are in accordance with established State of Utah legal restrictions as promulgated in the Fiscal Procedures Act. The following is a summary of the more significant policies.

#### ***a. Reporting Entity***

The Facility's financial statements are prepared on a basis consistent with Internal Service Fund Reporting. Internal service funds are used to account for goods or services provided by a central service department or agency to other departments or agencies of the governmental unit, or to other unrelated governmental units, usually on a cost recovery basis. Accordingly, revenue and other financial resources of these funds should recover expenses, including depreciation and amortization. The Board of Directors has adopted a policy not to recover depreciation and amortization from the members who own the Facility. (See Note 5)

In determining the reporting entity, the Facility applied the criteria of Statement No. 14 of the Government Accounting Standards Board. The underlying concept of Statement No. 14 is that the financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria used for determining financial accountability is whether the facility's Board appoints a voting majority of the potential component units' (PCU) Board, whether the Board of the primary government can impose their will on the PCU and whether the PCU imposes a financial benefit or burden on the primary government. Central Valley Water Reclamation Facility applied these criteria and concludes there are no potential component units that should be included in the reporting entity, nor is Central Valley Water Reclamation Facility a component unit of any other entity.

#### ***b. Basis of Accounting***

The Facility is an enterprise fund and uses the accrual basis of accounting. An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing services to the general public on a continuing basis are financed or recovered primarily through user charges. Revenues are recognized when earned, and expenses are recognized when incurred.

The Facility applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

#### ***c. Organization***

The Facility was organized on October 17, 1978, pursuant to the Interlocal Co-operation Act of the State of Utah by five special purpose government entities and two cities. The purpose of the Facility is to plan, construct, and operate a regional sewage treatment facility for the benefit of the seven members. The seven members and their related ownership interests, as amended, prior to the 2005 ownership adjustment, are listed below:

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *c. Organization (continued)*

	<u>Original Facility</u>	<u>New Expansion</u>	<u>Enhancements</u>	<u>Digesters</u>
Cottonwood Improvement District	19.569%	5.6817%	18.1191%	10.87268%
Salt Lake City Suburban Sanitary District #1	25.622	23.7456	24.7780	25.20890
Granger-Hunter Improvement District	21.124	22.4545	20.2376	15.40916
Kearns Improvement District	5.978	31.8643	11.2654	29.70751
Murray City	8.892	3.8887	8.0168	3.31158
South Salt Lake City	6.120	2.5881	5.0980	3.38757
Taylorsville-Bennion Improvement District	<u>12.695</u>	<u>9.7771</u>	<u>12.4851</u>	<u>12.10260</u>
	<u>100.000%</u>	<u>100.000%</u>	<u>100.000%</u>	<u>100.0000%</u>

The construction of the treatment facility plant has been funded by equity contributions from the seven members in proportion to their ownership interests, and by grants from the Environmental Protection Agency of the federal government and taxable sewer revenue bonds from the Utah State Division of Water Quality. Clean up costs of the site were provided by the Utah Bureau of Radiation Control and the Department of Energy. The Facility also contributed to the clean up costs.

During October 2004, the Board of Directors adopted a change to the member entities' percentage of ownership in the "new expansion" and "digesters" to better reflect existing and future use. It is intended that any future changes will be negotiated between the entities. The percentage of ownership changes were effective on April 18, 2005. These percentages and the amounts each member is over (under) paid are as follows:

	<u>New Expansion</u>		<u>Digesters</u>
	<u>Percentage</u>	<u>Total Over/ (Under) Paid</u>	<u>Percentage</u>
Cottonwood Improvements District	7.3215%	\$ (332,645)	8.042%
Salt Lake City Suburban Sanitary District #1	23.6177	25,946	20.080
Granger-Hunter Improvement District	25.4755	(612,831)	25.050
Kearns Improvement District	24.0002	1,595,287	28.435
Murray City	6.8421	(599,118)	6.280
South Salt Lake City	2.5074	16,371	1.378
Taylorsville-Bennion Improvement District	<u>10.2356</u>	<u>(93,010)</u>	<u>10.735</u>
	<u>100.000%</u>	<u>\$ —</u>	<u>100.000%</u>

#### *d. Budgets*

The Facility prepares an annual budget on the modified cash basis of accounting, which is filed with the State of Utah. The member entities are given a monthly financial report, comparing budget to actual expenditures both on a current month and year to date basis.

#### *e. Inventory*

During construction of the Facility, contractors supplied spare parts essential to the Facility's operation. In addition, those parts, which are critical to plant operations, and parts requiring long lead times are being currently stocked by the Facility. As inventory is not for sale, repairs

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **e. *Inventory (continued)***

expense is the only operating item affected as the items are used. The parts inventory is stated at the lower of cost or market.

#### **f. *Property, Plant, and Equipment***

Property, plant, and equipment are stated at cost. Depreciation of office furniture, equipment, and the Facility is computed using the straight-line method over an estimated useful life of five to forty years. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. All construction and equipment purchases that are directly attributable to the treatment facility project are capitalized.

#### **g. *Revenues***

Revenues are received from the member entities based on the inflow allocation formula for operations and maintenance and the applicable percentage for capital expenditures.

#### **h. *Compensated Absences***

Accumulated unpaid vacation amounts are accrued annually, not to exceed 270 hours. Sick pay amounts are charged as wages when used. Terminated employees are not paid for unused sick leave. Retired employees are paid twenty-five percent of their unused sick leave immediately upon retirement, and the remaining amount will be used to pay for the retiring employees' health insurance premiums, not to exceed 1,040 hours.

#### **i. *Cash and Cash Equivalents***

For purposes of the Statement of Cash Flows, the Facility considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### **2. DEPOSITS AND INVESTMENTS**

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Facility follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Facility funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

**a. Deposits**

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 450
Cash on deposit	<u>32,766</u>	<u>(735,152)</u>
 TOTAL	 <u>\$ 32,766</u>	 <u>\$ (734,702)</u>

***Custodial Credit Risk:*** Custodial credit risk is the risk that, in the event of a bank failure, the Facility's deposits may not be returned to it. The Facility does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, none of the Facility's bank balances were uninsured and uncollateralized.

**b. Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the Facility and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Facility to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.



# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **2. DEPOSITS AND INVESTMENTS (CONTINUED)**

As of December 31, 2005, the Facility had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
State of Utah Public Treasurer's Investment Fund	\$1,665,506	\$1,665,506	\$ -	\$ -	\$ -
Repurchase Agreements	<u>1,026,341</u>	<u>1,026,341</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$2,691,847</u>	<u>\$2,691,847</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Facility's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Facility's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2005, the Facility's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Facility's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Facility will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Facility does not have a formal policy for custodial credit risk.

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **3. RECEIVABLES AND WORKING CAPITAL ADVANCES FROM MEMBERS**

The receivables and working capital advances from the member entities at December 31, 2005 are comprised of the following:

	<u>Receivables</u>	<u>Working Capital Advances</u>
Cottonwood Improvement Facility	\$ 182,374	\$ 244,612
Salt Lake City Suburban Sanitary Facility #1	271,551	320,275
Granger-Hunter Improvement Facility	266,239	264,050
Kearns Improvement Facility	116,690	74,725
Murray City	99,434	111,150
South Salt Lake City	77,353	76,500
Taylorsville-Bennion Improvement Facility	<u>142,761</u>	<u>158,688</u>
	<u>\$ 1,156,402</u>	<u>\$ 1,250,000</u>

### **4. RETIREMENT PLAN**

Central Valley Water Reclamation Facility sponsors a defined contribution retirement plan, which provides individual retirement funds for each eligible participating employee. Eligible employees consist of all full-time employees. Benefits to retired employees are based on the value of the individual's account. The total contribution is 25% of the employee's annual salary. Contributions to the retirement plan amounted to \$892,236, \$839,376, and \$822,148 for 2005, 2004, and 2003, respectively. Covered salaries for the same period were \$3,568,944, \$3,357,504, and \$3,288,504, respectively.

### **5. CAPITAL ASSETS**

During 1986, the Facility began operations. In enterprise accounting for governmental entities like the Facility, depreciation acts as a means to set aside funds for replacement of assets. The member entities have decided not to fund amounts that reduce the carrying value of capital assets via member service charges paid to the Facility. The offset is, in effect, a reduction of member capital contributions for the Facility in the equity section and reflects the need for later contributions.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 10,678,531	\$ —	\$ —	\$ 10,678,531
Construction in progress-secondaries	<u>354,023</u>	<u>6,546,101</u>	<u>—</u>	<u>6,900,124</u>
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>11,032,554</u>	<u>6,546,101</u>	<u>—</u>	<u>17,578,655</u>

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 5. CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Water reclamation facility	\$166,074,731	\$ 723,521	\$ (2,486,234)	\$164,312,018
Golf course	5,497,445	16,324	(15,000)	5,498,769
Facility equipment	3,311,744	68,282	(65,753)	3,314,273
Office furniture and equipment	1,309,312	—	(418,696)	890,616
 TOTAL CAPITAL ASSETS BEING DEPRECIATED	 <u>176,193,232</u>	 <u>808,127</u>	 <u>(2,985,683)</u>	 <u>174,015,676</u>
Less accumulated depreciation for:				
Water reclamation facility	(72,686,381)	(5,600,881)	1,644,002	(76,643,260)
Golf course	(1,183,329)	(342,820)	15,000	(1,511,149)
Facility equipment	(2,267,373)	(268,108)	65,752	(2,469,729)
Office furniture and equipment	(1,182,191)	(32,764)	418,696	(796,259)
 TOTAL ACCUMULATED DEPRECIATION	 <u>(77,319,274)</u>	 <u>(6,244,573)</u>	 <u>2,143,450</u>	 <u>(81,420,397)</u>
 TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	 <u>98,873,958</u>	 <u>(5,436,446)</u>	 <u>(842,233)</u>	 <u>92,595,279</u>
 CAPITAL ASSETS, NET	 <u>\$109,906,512</u>	 <u>\$ 1,109,655</u>	 <u>\$ (842,233)</u>	 <u>\$110,173,934</u>

During 2005, the Facility disposed of equipment at a net loss of \$787,550. The Facility applied the loss to the member entities based on the member entities' ownership percentage.

### 6. MEMBER NOTES RECEIVABLE

Notes receivable consist of amounts due from a member entity for its share of a land purchase in 2002. The note receivable bears interest at 6%, is payable in monthly installments, and has a term of ten years, beginning on September 1, 2002.

	<u>2005</u>
Total notes receivable - members	\$ 243,055
Less current portion	<u>(31,526)</u>
Notes receivable - members, long-term portion	<u>\$ 211,529</u>

Presented below is a summary of notes receivable payment requirements to maturity by years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 31,526	\$ 13,726	\$ 45,252
2007	33,471	11,781	45,252
2008	35,535	9,717	45,252
2009	37,727	7,525	45,252
2010	40,054	5,198	45,252
2011-2015	<u>64,742</u>	<u>3,118</u>	<u>67,860</u>
 TOTAL	 <u>\$ 243,055</u>	 <u>\$ 51,065</u>	 <u>\$ 294,120</u>

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **7. DUE FROM MEMBERS**

A portion of the revenue bonds issued during 2005 was distributed to the members. Although the revenue bonds are in the name of the Facility, the members are responsible to fund debt service requirements over the life of the bonds. The amount distributed to members, \$23,000,000, is included as "due from members – bond principal" in the balance sheet of the Facility. The remaining bond funds drawn down as of December 31, 2005 (\$7,500,000) are being used to fund a Facility project and will be added to "due from members – bond principal" upon completion of the project. In addition, accrued interest payable on the bonds as of December 31, 2005 is \$586,044. This amount is included as "due from members – bond interest" in the balance sheet. The members' respective shares of the "due from members – bond principal" and "due from members – bond interest" are as follows:

	<u>Due from Members - Bond Principal</u>	<u>Due from Members - Bond Interest</u>
Cottonwood Improvement District	\$ 1,471,688	\$ 38,953
Salt Lake City Suburban Sanitary District #1	4,408,643	119,341
Granger-Hunter Improvement District	7,478,145	175,247
Kearns Improvement District	4,953,407	134,602
Murray City	2,659,416	57,968
South Salt Lake City	—	5,196
Taylorsville-Bennion Improvement District	<u>2,028,701</u>	<u>54,737</u>
	23,000,000	<u>\$ 586,044</u>
Less current portion	<u>(1,300,000)</u>	
LONG-TERM PORTION	<u>\$21,700,000</u>	

### **8. LONG-TERM DEBT**

#### ***Revenue Bonds***

The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. During the year, the Facility issued taxable sewer revenue bonds totaling \$35,000,000 to fund the post-1993 ownership of the treatment facility. The members' respective shares of the bonds are as follows:

Cottonwood Improvement District	\$ 2,326,388
Salt Lake City Suburban Sanitary District #1	7,127,327
Granger-Hunter Improvement District	10,466,205
Kearns Improvement District	8,038,751
Murray City	3,462,000
South Salt Lake City	310,284
Taylorsville-Bennion Improvement District	<u>3,269,045</u>
	<u>\$35,000,000</u>

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **8. LONG-TERM DEBT (CONTINUED)**

The Facility receives advances from the bond proceeds to reimburse costs related to facility projects. As of December 31, 2005, \$30,500,000 of proceeds had been received by the Facility. Revenue bonds outstanding at December 31, 2005 were as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Sewer treatment facility	3.00%	\$30,500,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 1,300,000	\$ 889,373	\$ 2,189,373
2007	1,340,000	876,000	2,216,000
2008	1,350,000	835,800	2,185,800
2009	1,370,000	795,300	2,165,300
2010	1,450,000	754,200	2,204,200
2011-2015	7,900,000	3,091,200	10,991,200
2016-2020	9,030,000	1,842,300	10,872,300
2021-2025	6,760,000	446,100	7,206,100
TOTALS	<u>\$30,500,000</u>	<u>\$ 9,530,273</u>	<u>\$ 40,030,273</u>

### ***Notes Payable***

The note payable consists of an amount due to one member entity related to the land purchase in 2002. At the inception of the note, the member entity had a 14.87% interest in the land and Central Valley had an 85.13% interest. The note payable bears interest at 6%, is payable in monthly installments, and has a term of ten years, beginning on September 1, 2002. Beginning on September 1, 2002, and each year thereafter on the anniversary of the beginning date, Central Valley will acquire 1.487% of the interest of the member in the land until all of the member's interest is transferred to Central Valley at the end of the term of the note.

	<u>2005</u>
Total note payable - member	\$ 243,055
Less current portion	<u>(31,526)</u>
Note payable - member, long-term portion	<u>\$ 211,529</u>

Presented below is a summary of note payable payment requirements to maturity by years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 31,526	\$ 13,726	\$ 45,252
2007	33,471	11,781	45,252
2008	35,535	9,717	45,252
2009	37,727	7,525	45,252
2010	40,054	5,198	45,252
2011-2015	<u>64,742</u>	<u>3,118</u>	<u>67,860</u>
TOTAL	<u>\$ 243,055</u>	<u>\$ 51,065</u>	<u>\$ 294,120</u>

# CENTRAL VALLEY WATER RECLAMATION FACILITY

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### **8. LONG-TERM DEBT (CONTINUED)**

#### *Changes in Long-Term Debt*

Long-term debt activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
Revenue bonds	\$ -	\$30,500,000	\$ -	\$ 30,500,000	\$ 1,300,000
Notes payable - member	<u>456,120</u>	<u>-</u>	<u>(213,065)</u>	<u>243,055</u>	<u>31,526</u>
 TOTAL LONG-TERM DEBT	 <u>\$ 456,120</u>	 <u>\$30,500,000</u>	 <u>\$ (213,065)</u>	 <u>\$ 30,743,055</u>	 <u>\$ 1,333,526</u>

Total accrued interest on long-term debt for the year ended December 31, 2005 was \$586,044, all of which is included on the balance sheet as due from members.

### **9. GROUND LEASE AGREEMENT**

During 1991, the Facility entered into an agreement to lease approximately forty acres of real property, which has been assigned to a Utah limited partnership for the purpose of constructing and operating a golf practice facility. The lease is for an initial term of thirty years. During the years ended December 31, 2005 and 2004 the Facility received net lease payments of \$31,979 and \$60,000, respectively, under terms of the lease. The original lease calls for fixed yearly payments of \$62,756 (adjusted for the consumer price index) plus a percentage of gross receipts through the end of the lease. The lease contains an escalation clause based on the consumer price index. Percentage rental payments are also required. During 2005, an amendment to the ground lease was signed. Under the amended agreement, the partnership was required to make monthly payments of \$5,000 to the facility until July 1, 2005. Beginning August 1, 2005, annual rent of \$71,875 was payable in monthly installments. The rent payment is subject to annual increases each year starting August 1, 2006 through July 31, 2014. If, under the amended agreement, the partnership is unable to make a payment but makes a minimum of six monthly payments of \$5,000 in each fiscal year of the amended lease, the partnership will be granted a maximum of five years, beginning August 1, 2014, to pay any unpaid monthly payment, plus interest of 7% per annum on the unpaid payments. As of December 31, 2005, the partnership owed monthly payments totaling \$32,969 plus accrued interest of \$1,172. Due to the uncertainty of the Facility's ability to collect these balances, the amounts are not included in the balance sheet.

### **10. GOLF COURSE MANAGEMENT AGREEMENT**

On April 29, 1999, the Facility entered into an agreement with a Utah limited liability company (manager) for the management and operation of the golf course. According to the terms of the agreement, the Facility is responsible for the payment of a management fee equal to 5% of gross revenues. In addition, the Facility is to pay 15% of the operating profits, to the extent available, to the manager. During the years ended December 31, 2005, and 2004 the Facility paid management fees of \$11,850 and \$11,102, respectively. The agreement is for five years beginning in August 2001.

**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**11. COMMITMENTS**

During the year, the Facility entered into a contract for construction of the secondaries project. As of December 31, 2005, there was approximately \$444,000 outstanding on the contract.

**SUPPLEMENTAL INFORMATION**



**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**SCHEDULE I**

**SCHEDULE OF CHANGES IN NET ASSETS**

**YEAR ENDED DECEMBER 31, 2005**

	Balance December 31, 2004	Capital Contributions	Capital Distributions
Original Facility:			
Cottonwood Improvement District	\$ 10,787,795	\$ 384,054	\$ (333,587)
Salt Lake City Suburban Sanitary District #1	13,510,812	502,849	(436,771)
Granger-Hunger Improvement District	11,144,349	414,572	(360,095)
Kearns Improvement District	2,999,205	117,323	(101,905)
Murray City	4,429,562	174,511	(151,579)
South Salt Lake City	3,239,204	120,109	(104,326)
Taylorsville-Bennion Improvement District	6,690,462	249,148	(216,408)
Environmental Protection Agency	28,179,207	-	-
Utah Bureau of Radiation Control	1,511,007	-	-
	<u>82,491,603</u>	<u>1,962,566</u>	<u>(1,704,671)</u>
New Expansion:			
Cottonwood Improvement District	843,668	-	-
Salt Lake City Suburban Sanitary District #1	3,525,949	-	-
Granger-Hunter Improvement District	3,334,237	-	-
Kearns Improvement District	4,731,483	-	-
Murray City	577,427	-	-
South Salt Lake City	384,304	-	-
Taylorsville-Bennion Improvement District	1,451,788	-	-
	<u>14,848,856</u>	<u>-</u>	<u>-</u>
Facility Enhancements:			
Cottonwood Improvement District	78,093	-	-
Salt Lake City Suburban Sanitary District #1	106,791	-	-
Granger-Hunter Improvement District	87,223	-	-
Kearns Improvement District	48,552	-	-
Murray City	34,552	-	-
South Salt Lake City	21,973	-	-
Taylorsville-Bennion Improvement District	53,811	-	-
	<u>430,995</u>	<u>-</u>	<u>-</u>
Digesters:			
Cottonwood Improvement District	1,435,482	-	-
Salt Lake City Suburban Sanitary District #1	3,328,240	-	-
Granger-Hunter Improvement District	2,034,415	-	-
Kearns Improvement District	3,922,175	-	-
Murray City	437,216	-	-
South Salt Lake City	447,248	-	-
Taylorsville-Bennion Improvement District	1,597,862	-	-
	<u>13,202,638</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 110,974,092</u>	<u>\$ 1,962,566</u>	<u>\$(1,704,671)</u>

<u>Depreciation</u>	<u>Net (Loss) on Disposal of Assets</u>	<u>Golf Course</u>	<u>Net Cash Adjustment Change in Ownership</u>	<u>Depreciation Adjustment on Change in Ownership</u>	<u>Balance Purchase of Land</u>	<u>December 31, 2005</u>
\$ 782,503	\$ (154,115)	\$ (629)	\$ —	\$ —	\$ (213,065)	\$ 9,687,950
1,024,544	(201,786)	(824)	—	—	—	12,349,736
844,683	(166,362)	(679)	—	—	—	10,187,102
239,040	(47,081)	(192)	—	—	183,370	2,911,680
355,564	(70,029)	(286)	—	—	29,695	4,056,310
244,720	(48,198)	(197)	—	—	—	2,961,872
507,635	(99,979)	(408)	—	—	—	6,115,180
962,988	—	—	—	—	—	27,216,219
50,683	—	—	—	—	—	1,460,324
<u>5,012,360</u>	<u>(787,550)</u>	<u>(3,215)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>76,946,373</u>
49,836	—	—	332,645	(89,153)	—	1,037,324
160,759	—	—	(25,946)	6,955	—	3,346,199
173,404	—	—	612,831	(164,248)	—	3,609,416
163,363	—	—	(1,595,287)	427,559	—	3,400,392
46,572	—	—	599,118	(160,572)	—	969,401
17,067	—	—	(16,371)	4,387	—	355,253
69,671	—	—	93,010	(24,928)	—	1,450,199
<u>680,672</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,168,184</u>
2,441	—	—	—	—	—	75,652
3,336	—	—	—	—	—	103,455
2,726	—	—	—	—	—	84,497
1,516	—	—	—	—	—	47,036
1,080	—	—	—	—	—	33,472
687	—	—	—	—	—	21,286
1,682	—	—	—	—	—	52,129
<u>13,468</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>417,527</u>
43,272	—	—	(459,064)	85,338	—	1,018,484
108,045	—	—	(728,189)	51,039	—	2,543,045
134,787	—	—	1,428,625	(155,779)	—	3,172,474
153,001	—	—	(123,277)	(44,728)	—	3,601,169
33,791	—	—	421,447	(29,537)	—	795,335
7,415	—	—	(262,159)	(3,157)	—	174,517
57,762	—	—	(277,383)	96,824	—	1,359,541
<u>538,073</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,664,565</u>
<u>\$ 6,244,573</u>	<u>\$ (787,550)</u>	<u>\$ (3,215)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$104,196,649</u>

**CENTRAL VALLEY WATER RECLAMATION FACILITY**

**SCHEDULE II**

**STATEMENT OF REVENUES AND EXPENSES**  
**(EXCLUDING DEPRECIATION) - GOLF COURSE**

**YEAR ENDED DECEMBER 31, 2005**

	<u>2005</u>
REVENUES	<u>\$ 252,474</u>
EXPENSES:	
Salaries and wages	142,240
Payroll taxes	11,814
Advertising	9,726
Bank charges	5,689
Utilities	8,473
Insurance	20,164
Legal and accounting	350
Miscellaneous	4,969
Repairs and maintenance	9,957
Supplies	27,285
Telephone	1,934
Travel	1,238
Management fee	<u>11,850</u>
TOTAL EXPENSES	<u>255,689</u>
NET (LOSS)	<u>\$ (3,215)</u>



# PINNOCK, ROBBINS, POSEY & RICHINS

*Certified Public Accountants • A Professional Corporation*

Ronald D. Robbins, CPA  
David T. Posey, CPA  
Roger O. Richins, CPA  
James R. Beaudoin, PFS, CFP, CPA  
Wade K. Watkins, CPA

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To The Board of Directors  
Central Valley Water Reclamation Facility

We have audited the financial statements of Central Valley Water Reclamation Facility, as of and for the year ended December 31, 2005, and have issued our report thereon dated February 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### ***Compliance***

As part of obtaining reasonable assurance about whether Central Valley Water Reclamation Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Central Valley Water Reclamation Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the Central Valley Water Reclamation Facility's management, Board of Directors, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

February 17, 2006

136 East South Temple, Suite 2250, Salt Lake City, Utah 84111 801/533-0409 Fax 801/533-0414



# PINNOCK, ROBBINS, POSEY & RICHINS

*Certified Public Accountants • A Professional Corporation*

Ronald D. Robbins, CPA  
David T. Posey, CPA  
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James R. Beaudoin, PFS, CFP, CPA  
Wade K. Watkins, CPA

## INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

To the Board of Directors  
Central Valley Water Reclamation Facility

We have audited the accompanying financial statements of Central Valley Water Reclamation Facility, for the year ended December 31, 2005 and have issued our report thereon dated February 17, 2006. Our audit included test work on the Facility's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt  
Cash Management  
Purchasing Requirements

Budgetary Compliance  
Other Compliance Requirements

The Facility did not receive any major or nonmajor State grants during the year ended December 31, 2005.

The management of Central Valley Water Reclamation Facility is responsible for the Facility's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Facility's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Central Valley Water Reclamation Facility, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

This report is intended for the use of Central Valley Water Reclamation Facility's Management, Board of Directors, and applicable federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

February 17, 2006



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February 17, 2006

To the Board of Directors  
Central Valley Water Reclamation Facility

Dear Members:

We have completed our audit of Central Valley Water Reclamation Facility for the year ended December 31, 2005. Central Valley Water Reclamation Facility is ultimately responsible for the financial condition of the Facility, and for the Facility's compliance with finance related state and federal law. The Uniform Fiscal Procedures Act outlines responsibilities of the governing body.

The purpose of the financial statements is to report in summary form, the financial condition of the Facility, and the results of its operations and changes in financial condition, and to provide information to the governing body to help them satisfy their legal and political responsibilities for determining and demonstrating compliance with the various finance related state and federal law.

During our audit, we noted no matters involving the internal control structure and other operational matters that should be presented to the Board.

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We sincerely appreciate the cooperation we received from the management and employees of the Facility during the course of the audit. It has been a pleasure working with them. We appreciate the opportunity to serve as your auditors.

*Pinnock, Robbins, Posey & Richins*  
Pinnock, Robbins, Posey & Richins, PC